

CORPORATE GLOBALIZATION THROUGH CROSS-BORDER MERGERS & ACQUISITIONS

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Abstrak

Gelombang merger dan akuisisi lintas negara (cross-borders mergers and acquisitions) dipicu oleh berbagai faktor seperti liberalisasi perdagangan, integrasi ekonomi regional, deregulasi pemerintah, privatisasi, dan motif perusahaan yang ambisius dan ekspansif. M&A lintas negara ini sebenarnya telah dimulai ketika hampir semua negara baik maju dan berkembang menerapkan program privatisasi pada dekade 1980an. Dari sisi kuantitas, jumlah M&A lintas negara telah meningkat dua kali lipat pada dekade 1990an. Sementara itu dilihat dari nilainya terdapat peningkatan hampir sepuluh kali lipat pada periode yang sama. Namun demikian M&A lintas negara sebagian terbesar masih didominasi oleh tiga kekuatan ekonomi yakni Amerika Utara, Eropa Barat dan Jepang.

Kata-kata kunci: merger dan akuisisi lintas negara, strategi korporat, sinergi, abnormal return.

INTRODUCTION

As the world becoming more global, companies throughout the world have been less and less insular, and they view the world as a total business community. Multinationals, as the player of international business, have been benefited by global economy in which they can exploit a huge market opportunity spreading over the world. In addition, the globalization of business has spawned a search for competitive advantage of multinationals. Increased deregulation, privatization, trade liberalization, regional economic integration and corporate restructuring are among the opportunities for multinationals to enter foreign market.

The last decade has witnessed a surge of takeover activity and was characterized by the wave of cross-border acquisitions. The development of cross-border Mergers and Acquisitions (CBM&A) has increased significantly. Table 1 represents the number of deal and value of cross border M&A in the last decade, while Table 2 represents the selected CBM&A based on the value of transaction and involved com-

panies. As shown in the Table 1, the number of deal from 1991 to 1999 are double, while the value of M&As in the same period increased ten times. During the decade, the only year that experienced decrease in amount and value was in 1992. The M&As, as shown in Table 2, occur in all industries such as telecommunication, media, financial, chemical and pharmaceuticals, autos, oil and gas, industrial machinery, utilities, food, retailing, mining, and timber.

**Table 1. The Number and Value
of Cross-border M&A**

Year	Number of Deal	US\$ (billion)
1999	19.108	3.373
1998	19.421	2.092
1997	16.370	1.348
1996	14.749	1.071
1995	13.347	694
1994	11.093	458
1993	9.367	320
1992	9.497	294
1991	9.636	349

Source: Mergerstat Publication

Table 2.
Major Cross-Border Transaction

No	Date An-nounced	Acquirer	Acquirer Nation	Target	Target Nation	Business Area	Value In Transaction (\$ Million)
1	01/18/99	Vodavone Group PLC	UK	Air Touch Communication	US	Mobile Telecommunication	60.287
2	08/11/98	British Petroleum Co Plc	UK	Amoco	US	Oil and Gas Company	48.174
3	05/07/98	Daimler-Benz AG	Germany	Chrysler Corp.	US	Automobile	40.467
4	10/21/ 99	Rhone-Poulenc SA	France	Hoechst AG	Germany	Chemical	21.918
5	07/28/ 99	Deutsche Telekom AG	Germany	One2One Telecommunication PLC	UK	Telecommunication Services	13.629
6	04/29/ 99	Repsol SA	Spain	YPF SA	Argentina	Oil and gas	13.152
7	03/02/ 98	Texas Utilities Co	US	Energy Group PLC	UK	Electric and gas utility	10.947
8	02/18/ 99	Aegon NV	Netherland	TransAmerica Corp	US	Insurance Company	10.814
9	11/30/ 98	Deutsche Bank AG	Germany	Bankers Trust New York	US	Banking	9.082
10	05/10/ 99	HSBC Holding PLC	UK	Republic New York Corp	US	Bank Holding Company	7.703
11	01/11/ 99	BAT Plc	UK	Rothman Int. BV	Netherland	Tobacco Product	7.515
12	08/21/ 95	Upjohn	US	Pharmacia AB	Sweden	Pharmacy	6.989
13	01/28/ 99	Ford Motor Co	US	Volvo AG	Sweden	Passenger Vehicle	6.450
14	01/18/ 99	Renault SA	France	Nissan Motor Co	Japan	Automobile	5.391
15	11/17/ 97	Allianz AG	Germany	Assurances Generale de France	France	Insurance	5.118
16	11/27/ 98	Alitalia Linee Aeree Italiane	Italia	KLM Royal Dutch Airline	Netherland	Air Transport Services	4.547
17	03/24/ 99	Ameritech	US	Bell Canada	Canada	Telecommunication	3.383
18	10/24/ 89	Ford Motor	US	Jaguar PLC	US	Automobile Manufacturer	2.395

Unfortunately, the CBM&As were not spreading equally, but they mostly concentrated in the Tri Ad-strong economy: North America, Western Europe and Japan. As a matter of fact, those regions are the home base of multinationals. Among the three, the volume of CBM & As of North America and Western Europe was slightly in balance. This means that many North American firms became acquirer of Western Europe firms, and vice versa. On the other side, more Japanese firms acquired firms in

Western Europe and North America than firms of two regions acquired Japanese firms. This was because the tough Japanese regulation on acquisitions by foreign firms, and there was reluctant to enter Japanese firm because of the difference in culture. In 1990s foreign firms particularly from United Kingdom and Japan acquired more the U.S. firms. This phenomena was triggered by (1) the weakening value of dollar, causing the U.S. assets were more inexpensive from the yen or pound's perspective, and (2) the good

prospect of the long-run economies growth and political stability of the U.S.

Those intensity problems are different in each country. Firms in stable countries have low risk and therefore they are target of acquisitions. For example, in the early 1990 the U.S. firms were net sellers of foreign firm rather than net buyers to foreign firms. At the time the U.S. economy experienced prosperity supported by the political stability.

When the crisis experienced by some Asian countries in 1997, the wave of cross border acquisitions also swept to Asia. Firms in Asia had been the target of acquisitions by multinational because the crisis had caused the firms undervalued, and therefore acquiring the Asian firms were much more inexpensive. For example, in the case of Cementos Mexicanos (Cemex) acquisition of some cement companies in Asia, it viewed that the price of Asian cement's stock was much less than its intrinsic value. When a firm experienced undervalued, it is time for acquirer to buy another. Moreover the wave of cross-border acquisitions from industrial countries to developing countries was also triggered by the deregulation policy to privatize state-owned companies. Many companies in the developing countries are "on sale".

In the case of Indonesia, acquisitions of state-owned companies by foreigner are not a new story. Under the IMF recipes in reconstructing Indonesian economy, Indonesian government must sell the stock ownership in state-owned companies to private companies either domestic or foreign. Government must not be a business player but it is as regulator on business activity, therefore the government must relinquish control over state-owned firms. The other rationale behind the selling of Indonesia's assets is that Indonesia needs to recover economy soon and to finance the deficit budget of balance of payment. The strange

thing is that the entire purchaser was foreigner. Here are the following examples: Singapore Telemedia Technology (STT) acquired Indosat, Asia Financial Temasek Singapore acquired Bank Damanon and Bank International Indonesia, Farralon Capital acquired Bank Central Asia, and a Malaysian consortium acquired Bank Niaga. Now, Bank Permata is also under the bidding process, and the selected final bidders are also foreign consortium.

CROSS-BORDER ACQUISITIONS AS A CORPORATE STRATEGY

Mergers and acquisitions are corporate strategy to grow through external path, the opposite of internal growth path. Cross-border Mergers and Acquisitions (CBM&As) has become expecting strategy for multinationals. One of the reasons why this strategy is chosen by multinational because it gives the option to enter foreign market quickly. By accessing the foreign market, the acquirer can accelerate its growth as soon as possible through increasing market segment significantly and, of course, increasing the stream of cash flow. It is impossible, for example, for Singapore Technology Telemedia (STT) to access more than 3,5 million customers in mobile phone more than Singapore's populations without acquiring Indosat.

In generating cash flow for acquirer, the case of acquisition on some banks in Indonesia is astonishing. Bank Central Asia, sold to Farralon of Rp5.7 trillion in 2001, has given dividend to acquirer almost Rp3 trillion only after 3-year acquisition, or the average dividend yield reaching 9.9 percent. It is predicted that Farralon investment on BCA's acquisition has payback period less than 6 year. Other case is that Bank Danamon, purchased by Financial Temasek Singapore of Rp3 trillion acquisition value, has contributed Rp612 billion in less than one year. Because the huge margin gener-

ated only less than one year, Temasek needs only three year to recover its investment. This acquisition also produces 10 percent of dividend yield.

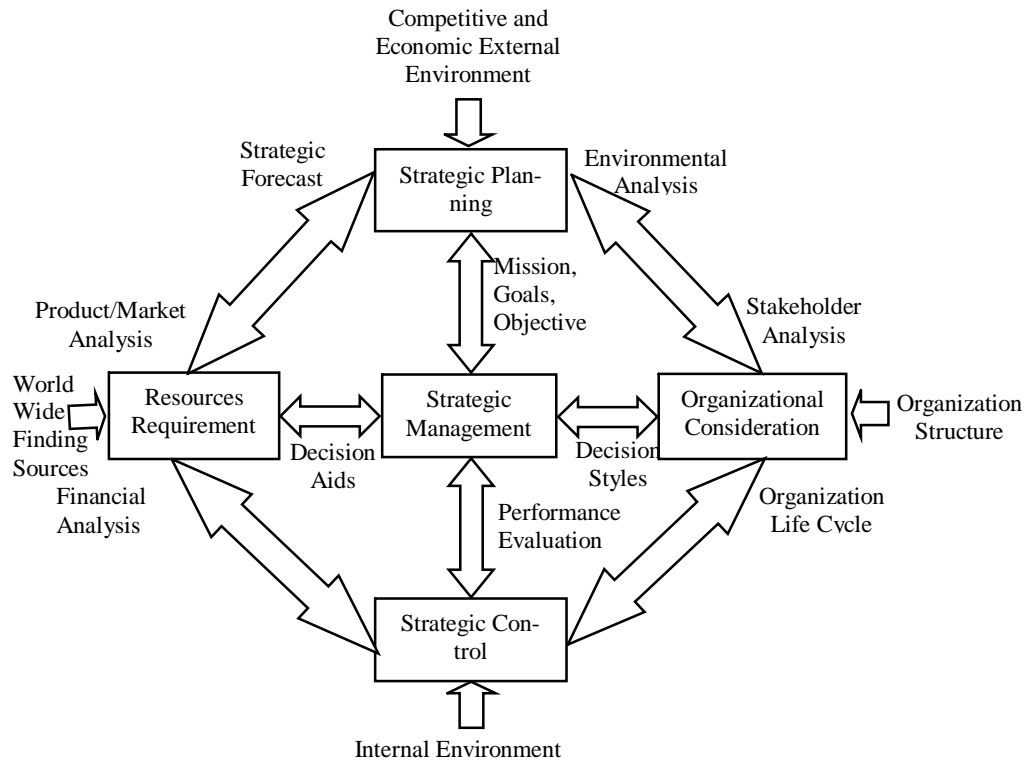
In a perfect world, corporate assets would be channels toward their best possible use. It means that the management should exploit the company's assets to have the optimum value represented by the market price of its stock. However, not every management can maximize the value of company as the shareholders expect. In other word, there is inefficient management of acquired firm. Mergers and acquisitions help attain this goal by reallocating control over companies. By utilizing their managerial talent, acquirer's management can optimize the work of target management. However, frictions occurs in the real world, that assets would not be channels at the best used. This is caused by some factors such as transaction cost, asymmetric of information, and agency conflicts that can prevent efficient transfer of knowledge, managerial and skill from acquirer to acquired.

The multinationals are continuously trying to access foreign market through various strategies as a mean to grow. Of the context of expansion to foreign markets, multinational can select two paths that are either by Greenfield investment *or*

by mergers and acquisitions. Greenfield investment or *de novo entry* can be achieved through start-up business such as establishing a new production facility, and in turn, the firm develops new markets and introduces new products in foreign territory. The disadvantage of Greenfield investment is that it frequently requires extended periods of physical construction and organizational development.

For multinational, the selection of the strategy is based on the following reasons: the level of market competition, the cost and benefit consideration, the availability of resources, the ease of market entry, and the ability to create added value. As an external growth strategy, acquisitions offers significant advantages compared with internal growth, because the firm is quicker to enter new product and market. This is because the acquirer needs not to built infrastructure to produce or sell the product. The acquired company has already had clear customer, established employee, administrative and management.

In the following chart diagram the worlds environment and potential business reaction in a four factor series of linkage that must work together to provide a company with flexible strategies direction in changing business environment.



Source: Laurance R. Newman. *Strategic Choices. The Handbook of International Mergers and Acquisitions, 1990*, David J. BenDaniel, and Arthur H. Rosenbloom. (Editors). Englewood Cliffs, NJ: Prentice-Hall. p. 3.

THE MOTIVES AND DETERMINANT OF CROSS BORDERS MERGER AND ACQUISITIONS

The increasing importance of the phenomenon, scholars in the field of international strategy and finance have begun to examine various aspects of the takeovers. Various explanations have been proposed for the reason, why acquisitions take place.

The Synergy Hypothesis

The synergy hypothesis proposed that acquisitions take place when the value of combined firm is greater than the sum of the values of the individual firms. The synergistic gain is the additional value may be pro-

duced from an increase in market power, operational efficiency, managerial advantageous, or some of financial gain such as lower cost of capital. In the international context, cross-border M&A can create synergy from the potential gain due to the rapid exploitation of foreign market. The synergy may come from the transfer of both potential valuable intangible assets, such as know-how and tangible assets such as manufacturing and technology.

The Hubris Hypothesis

The hubris hypothesis proposed that acquisitions occur because managers make mistake in evaluating target firm. Confidence on

their assessment on target firm, the managers are willing to buy target stocks with high premium. Moreover, M&A is done in the sake of management's interest. Many cases discover that the acquisitions hurt acquirer shareholders due to the high premium paid that can never be recovered. According to the hypothesis, managers who initiating the acquisitions are encouraged to increase their authority and power by increasing the size of firm and by controlling over company which is acquired.

The Managerial hypothesis

According to the hypothesis there will be managerial transfer from acquirer to target so that Target Company be able to maximize its value. Under incumbent management, Target Company works under performed and unable to maximize its value because of poor management.

Shorten Time and Accelerate Growth

To accelerate company's growth, a company needs much time and efforts when the growth is from internal organization. Establishing a new foreign subsidiary is not easy and time consuming. The company must conduct step by step as follows: market research, strategic development, research and development, market test, physical development, and production activities. Conversely, by acquiring an existing business abroad, the time to enter foreign market can be shorten, and in turn, the company can be able to accelerate its cash inflow and profitability.

Access Technology and Differential Product

Foreign acquisition is aimed to access advanced technology owned by a foreign firm. This type of acquisition takes place in high technology-based firms such as in chemicals, automotives and computer. In the same time the acquirer can be able to diversify its

products due to the additional product line that already had by target firm.

Government Policy

Much government is selling state-owned company through privatization and divestment program. This is very good chance for multinational to acquire the firms. The program has triggered the wave of cross border acquisitions since the early 1980s. Not only did the developing countries in Asia, Latin America and Eastern Europe privatize their state-owned company, advanced countries such as U.K., France, and the Netherlands do the same thing as well. In the case of acquisition on Asian firms, foreign acquirer finds that the price of target is inexpensive due to the weakening of Asian currency as a result of economic crises in 1990s.

THE ADVANTAGES AND DETRIMENTS OF CBM&AS

Multinational Corporations (MNCs) may enter foreign markets by taking many alternatives: exporting, licensing, franchising, joint ventures, acquisitions, and establishing new foreign subsidiaries. As an entry strategy, cross border acquisitions gives more significance advantage than such strategies. **First**, it can shorten the time required to access product, market, and customers immediately, and to gain a presence and facilitates as competitive entry into market the firm since the target has been already established. This means that the firm can reduce market failure. **Second**, it is cost-effective way of gaining competitive advantage such technology, brand name, resources, logistical and distribution advantage, while simultaneously eliminating local competitors. **Third**, the target firm will enable to generate immediate cash flow, because the target is already in place. **Forth**, the firms may get benefit due to market imperfection because of the difference of international economies, political and foreign

exchange condition. This allows the target firms to be undervalued. In the specific region such as Asia, many corporations have been the target or foreign acquisitions as a result of economic crisis. Due to the economic crisis, instability of political environment and the weakening of foreign currency had caused the assets and stock inexpensive.

Cross-border acquisitions, however, face many problems. For example, the acquirer must pay too high price in order to lure target shareholder release their stock ownership. In addition acquirer must face the protest from target's employee and society refusing acquisitions. Other problems emerge in cross-border acquisitions are as follows:

- (1) Cultural shock
Understanding the target culture, people, and the business environment is very important. In the integration process of post-acquisitions, culture plays an important role in gaining successful acquisitions. People in both companies must be able to align the cultural differences in order to smooth the integration process. The collision of culture should be avoided unless the firm will be at risk.
- (2) Management Distant
Management must be comfortable handling the operation very far from its home base.
- (3) People Problem
Every country has unique people and have in additional player in people management: militant union, worker councils, and country labor problem. Each of these may bring unique sets of people management issues different from the acquirer.
- (4) Lack of business knowledge.
Doing business abroad cannot be equalized with doing domestic business. It needs deep understanding business environment and practices in target countries.

- (5) Poor knowledge of industry and geography.

Many foreign acquisitions fail because the buyer wrongly assumed it knew the seller's country and industry. Many companies do not do sufficient examination concerning the country in which they are doing acquisitions.

- (6) Intervention of government
Government intervenes in determining price of acquisition, and form of financing especially for public-owned companies. Other government intervention is on antitrust and antimonopoly act.

- (7) Refusal by Local community.
For "nationalist" people, foreigners view foreign acquisitions as the stealing of national assets. The firms exploit the resources of the nation while the profit returns back to the foreigner as the owner of the firm.

SOME FINDINGS OF CBM&As

Several researches had been conducted to investigate the impact of cross borders acquisition in stock return. The acquisition by the U.S. companies abroad shows that the acquisitions give positive impact on abnormal return when the firm expands into new industries and geographic market. However when the firm already has operations in target firm's country, U.S. shareholder experience no significant abnormal return (Eun and Resnick, 2001). The author also quotes the study by Mork and Yeung (1992) that international acquisition by the U.S. information-based intangible assets firms also produce significantly positive abnormal return. The finding is consistent with the hypothesis that the CBM&As will produce synergistic gain when the acquiring firms are able to exploit their intangible assets. The typical assets are unique and are not easily imitated by other firms. The intangible assets include trademark, patent, intellectual properties, mar-

keting skills, experienced human resources, technological leadership, research and development and managerial capabilities.

Theoretically, any acquisition should give benefit to both acquirer and target shareholder by investigating whether there is increase on their wealth. The rationale of this underlying theory is that merger and acquisition is a strategy to increase shareholder wealth. If the acquisition were not able to achieve the goal, the acquisition is fail. Many researches uncover that only the target shareholder is benefited by the acquisition, while acquirer shareholders face uncertainty. The acquirer shareholder must be waiting for long time to know whether the acquisition be successful. This phenomenon is not only for cross borders M&A, but also for domestic M&A. The following table shows the average wealth gains from CBM&A by foreign firms on the U.S. firms.

On the research of cross country determinants of M&A by Rossy and Volpin (2003) conducted in 49 major countries in the 1990s and completely by the end of 2002 reveals that (1) difference in law and en-

forcement explain the intensity and the pattern of M&A around the world, (2) the volume of M&A activity is significantly larger in countries with better accounting standards and stronger shareholder protection for minority interest, (3) the premium is higher in the countries with higher shareholder protection, and that diffuse ownership the bidder must pay higher premium to overcome the free-rider problem, (4) acquisitions by stock require an environment with high standard protection, (5) the firm in countries with weaker investor protection are often sold to buyers from countries with stronger investor protection. In other words, target firm are typically from countries with poorer investor protection than the acquirers, and (6) better investor protection is correlated with a more active market for M&A. Better legal protection of minority shareholders is associated with more develop stock markets, greater dividend payouts, lower concentration of ownership and control, lower private benefits of control, lower earning management, lower cash balance, and higher correlation between investment opportunities and actual investment.

Table 3
Average Wealth Gains from CBM&As of the U.S. Firms

Country of Acquirer	Number of cases	Average wealth gains (in million U.S. \$)		
		Acquirer	Target	Combined
Canada	10	14.93	85.59	100.53
Japan	15	227.83	170.66	398.49
U.K.	46	-122.91	94.55	-28.36
Other	32	-47.46	89.48	42.02
All	103	-35.01	103.18	68.18

Sources: C. Eun, R. Kolodny, and C. Scheraga, "Cross Border Acquisitions and Shareholder Wealth: Test of the Synergy and Internalization Hypothesis," in Cheol S. Eun and Bruce G. Resnick, *International Financial Management*, 2001, p.373.

THE SUCCESSFUL OF CROSS BORDER ACQUISITIONS.

There is no exact rule that the cross border acquisitions will attain success. However, according to empirical research by international management consultant McKinsey, the followings are the factors determining the success of cross border acquisitions (Sudarsanam, 1995).

- ❑ Target is closed to acquirer's core business.
- ❑ Before acquired, target has outstanding performance in finance or other capabilities.
- ❑ Acquirer and acquire can reciprocity transfer of managerial competence.
- ❑ Acquirer has experience in acquisition.
- ❑ Acquirer focuses on critical target's element having global access such as research and development.
- ❑ Acquirer integrates critical system as soon as after deal.

Each country has unique characteristics and it offers specific advantage and disadvantage. The advanced countries have established system and structure of economy. This situation the competition in the countries will be much intense, causing the lower risk and low return. Conversely, developing countries is characterized by having instability in political, legal and economy. This causes the high risk, and therefore high return.

THE M&A REGULATION

Multinationals must have deep attention on local government regulation when they want to enter foreign market through acquisition. Each government has regulation to prevent negative impact of cross border acquisitions. For example, any merger and acquisition causing monopoly in its industry is banned by the regulation. Not all indus-

tries are allowed to be acquired by foreign firm. In the U.S., some industries are subject to foreign acquisitions. The industries are communication, defense, investment banking, insurance, public utilities, and air and water transportation (McCarty, 1990). The U.S. government agencies monitoring the cross border acquisitions are under Federal Trade Commissions (FTC), Department of Justice, and the Security Exchange Commissions.

In Canada, cross border acquisitions is regulated under Investment Canada Act and the Foreign Investment Act. In Germany, such relation is under German Cartel Office while in Japan the government owns Fair Trade Commissions. In the U.K. Monopolies and Mergers Act 1965 regulate mergers activity. Two government agencies were established to monitor mergers and acquisitions, Monopolies and Mergers Commissions (MMC) and Office of Trading (OFT).

The French under Treasury Department regulate acquisitions by foreigners other than European Union. The French government does not allow foreign acquisitions of the medical instrument and defense industry. More over foreign acquisition for France firm is forbidden if the acquisitions causing more than 25% market concentration. In The European Union, M&A are regulated under The Treaty of Rome, binding all members of European Union countries. In the Indonesian case, almost all industries are allowed to be acquired by foreign firms. Indonesian firms in telecommunication, natural resources, banking, and public utilities have been sold to foreigners. The Indonesian capital market regulation allows that foreigner can purchase up to a hundred percent of outstanding share on stock listed in the capital market.

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